

Dollars and Sense:
How the City of Monroe Spends Your Money

2015 Citizen's Guide to
the City of Monroe's Financial Health

Presented by
Edward Sell, Finance Director

KEY TERMS

There are a few key terms that may be helpful when reading this report. They include:

- **Budget deficit/surplus.** If there is less money received than paid out in a given fiscal year, there is a budget **deficit** or shortfall. If there is more money received than paid during the fiscal year, a budget **surplus** exists.
- **Debt.** Just like a homeowner takes out a mortgage, governments can borrow money to pay for certain types of projects. The state has both short-term debt (paid back within the fiscal year) and long-term debt. Debt can be either **general obligation** debt, meaning that the City pays back the debt with regular tax collections and other revenues, or **special revenue** debt, which is paid off over time with revenue from specified sources beyond the usual taxes and service fees.
- **Fiscal year (FY).** The 12-month period of time during which budgets are allocated or finances are planned. Most households have a fiscal year that runs from January 1 to December 31 (that's the period for which we pay personal income taxes in April), while state government uses an October 1 - September 30 fiscal year. Some local units of government, including public schools, use a July 1 - June 30 fiscal year, while others operate on a typical calendar year.
- **Fund balance.** Once all the bills for the year have been paid out of a certain fund, whatever is left over is called the fund balance. When a fund balance is less than zero, you'll see the number shown with parentheses around it. Deficits cause fund balances to decrease, while surpluses cause them to increase.
- **Public budget gap.** A novel measure, similar to the deficit, used to measure the extent to which a government is falling short of covering its current and long-term obligations in a fiscal period. The budget gap takes into account the budget deficit, as well as any new obligations that the government has failed to cover such as **employee pensions or retiree health care**.
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.

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Welcome

Greetings,

All City of Monroe residents have a vested interest in the economic future of the City. Financial and operating decisions that are made today will affect future generations for years to come. This report is intended to provide ALL citizens with an assessment of the financial health of the City of Monroe. Taxpayers deserve to know what their dollars are buying, and have a voice in making sure those services and programs are going to be appropriate going forward. This report provides information on:

- How taxes and fees are collected and used;
- The long-term consequences of today's budget decisions-borrowing, debt levels, budget reserves; and
- The bills that are mounting for the future, such as employee pensions and retirement healthcare benefits.

For this report, the most current information available has been used. In most cases, this is for the City's fiscal year ending June 30, 2014.

Once you have read this report, you are invited to make your voice heard. Bring your ideas to the table, share your opinions, and contact the Mayor, your Councilperson or my office with constructive ideas to move the City of Monroe forward in a financially responsible manner. Thank you for your interest in the present and future of the City of Monroe.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward J. Sell Jr.", with a stylized flourish at the end.

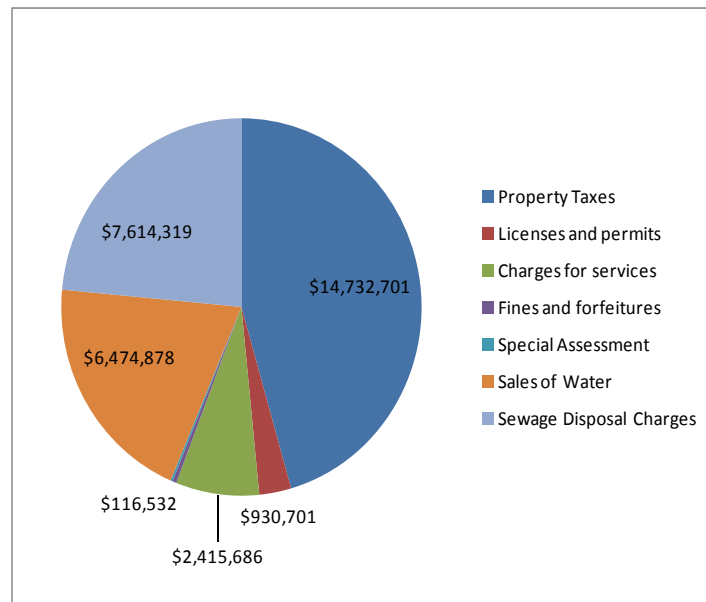
Edward J. Sell Jr.

Finance Director

How Governments Use Your Money

WHERE CITIZEN DOLLARS GO

The City of Monroe collects funds from its residents in the form of property taxes, license and permit fees, special assessments, and charges for services. For the most recently completed fiscal year, the City collected \$32.3 million dollars from its residents and customers. The customers for the Water and Wastewater Systems include residents of other governments, including Frenchtown and Monroe Townships and the Village of Dundee. The breakdown of these funding sources is displayed in the following graph:



SERVICES THAT GOVERNMENTS PROVIDE

In general, the City of Monroe uses the money it collects from its residents to coordinate and deliver public services, including, but not limited to:

- Public Safety (Police Protection and Crime Prevention, Fire Protection and Prevention, Emergency Medical Services, and other Emergency Response)
- Public Works Activities (Potable Water, Wastewater Treatment, Street Maintenance and Preservation, Street Sweeping, Street Lighting, Park Maintenance)
- Cultural and Recreation Activities (Library Services, Parks and Recreation Programs, Multi-Sports Complex)
- Community Development (Community Planning, Economic Development, Building Safety and Inspection Programs, Zoning and Blight Codes Compliance and Property Maintenance)
- Capital Outlay (Reinvestment in the City's infrastructure and replacement of operating assets)
- Debt Service (Payments made on loans received to finance long-term assets or programs)

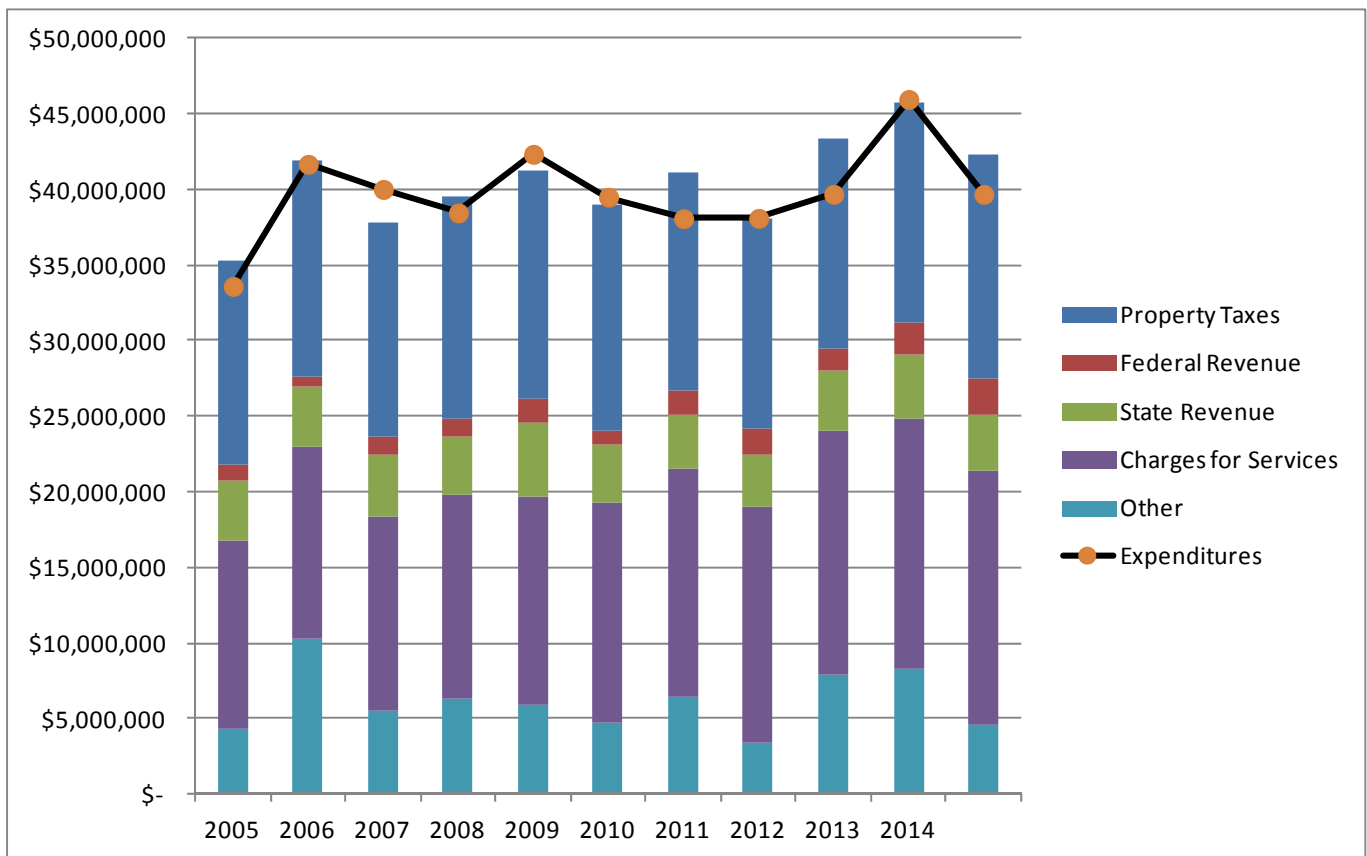
How Taxpayer Money is Spent: Government Revenues and Expenditures

GOVERNMENT BUDGETS

The City of Monroe annually adopts a budget by the end of April for the upcoming fiscal year that will begin on July 1. Local governments in Michigan are prohibited by law from adopting deficit budgets that would spend more than its annual revenue plus any reserve funds that may have accumulated. On the basis which the City prepares its budget, the City reported total revenues of \$42.2 million and total expenditures of \$39.7 million. This includes revenues from all sources for all of the activities reported in governmental funds (Police, Fire, Public Works, Recreation, etc.) and the funds reported as enterprise funds (i.e. Water, Wastewater). Here is the budget equation for the City of Monroe for 2014 in plain and simple terms:

City of Monroe Spending for Fiscal Year 2014	
Government took in:	\$42.2 million
Government spent:	\$39.7 million
Difference	\$2.5 million

Historical Spending Levels, FY2005-2014



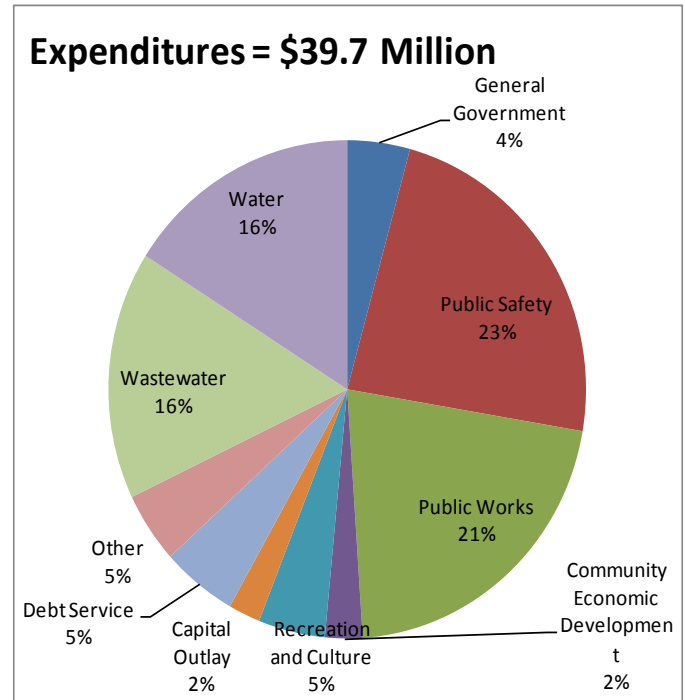
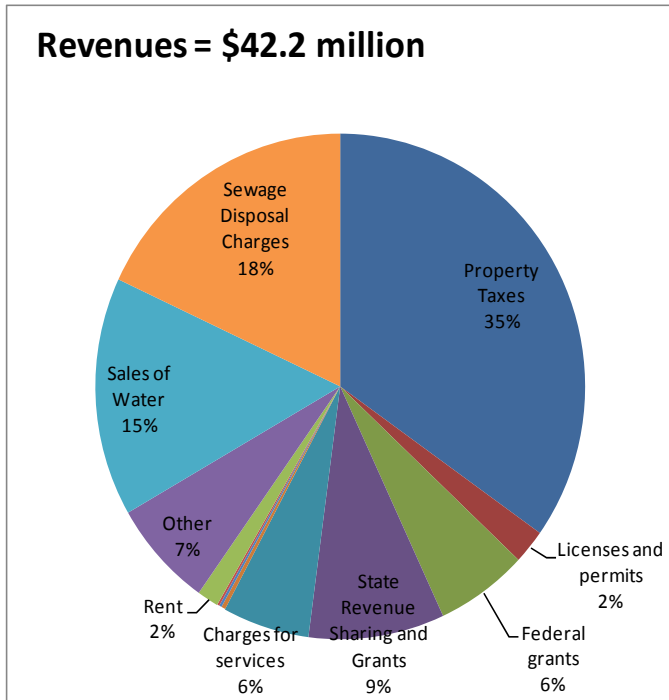
The expenditures for the City of Monroe have closely followed revenue levels in most years. For fiscal year 2014, revenues exceeded expenditures by \$2.5 million. The funds generated in excess of expenditures were used during the fiscal year to

make principal payments on debt and to reinvest in the City’s infrastructure. Principal payments and investments in infrastructure are not classified as expenditures.

Revenues. The following charts show a breakdown of the funds moving in and out of the City of Monroe for fiscal year 2014. On the revenue side, Property tax revenue makes up approximately 35% of total revenue, with state revenue sharing and state grants making up 9%, and water sales and sewage disposal charges combined making up 33%.

Expenditures. Expenditures for Public Safety (23%) and Public Works (21%) are the largest expenditure categories for the City of Monroe. Water (16%) and Wastewater (16%) make up a combined 32% of total expenditures. The Water and Wastewater Systems are regional service providers which also cover areas outside of the City of Monroe.

Public Revenues and Expenditures by Category, FY2014



NUMBER OF GOVERNMENT EMPLOYEES

For fiscal year 2014, the budget for the City of Monroe included funding for 166.6 full-time equivalent (FTE) employees. The City also hires up to fifty (50) seasonal or part-time employees related to recreation programs and other activities that fit well with part-time employment. The City’s full-time employment numbers remained at 166.6 for the 2015 fiscal year. The following table displays a short history of the City’s full-time employment levels.

City of Monroe Full-Time Employment, 2001-2014						
	2001	2002	2006	2010	2014	%Change Since 2001
FTE's Funded	254	258	251	182	166.6	-34.41%

CITY OF MONROE EMPLOYEE COMPENSATION

The City of Monroe's average compensation for its full time employees was \$79,589 for fiscal year 2014. These compensation figures include all salaries and wages and the cost of pensions and health insurance. They do not include the cost of other fringe benefits, such as the retiree health insurance benefit, which is an unfunded liability of the City and is discussed later in this report. The City of Monroe average is based upon full-time employee cost only. Salaries and wages account for 77% of the average and fringe benefits account for 23%. The City of Monroe average is reduced to \$74,039 with the elimination of overtime compensation from the calculation. If all employees are considered, including part-time, and seasonal employees, the average with overtime included is reduced to \$47,536. The total cost for wages and pension and health insurance benefits for the 2014 fiscal year was \$13.93 million.

City of Monroe's Fiscal Health

In order to continue operating with a balanced budget and to maintain adequate reserves, the City of Monroe took many steps during the economic downturn that followed the financial crisis of 2008 to make operations more efficient, including:

1. Reducing the number of employees
2. Consolidating and outsourcing services
3. Cooperating with neighboring townships and the County of Monroe
4. Freezing and reducing employee wages and fringe benefits
5. Established new fees and reviewed adequacy of prior fees
6. Minor elimination of some services

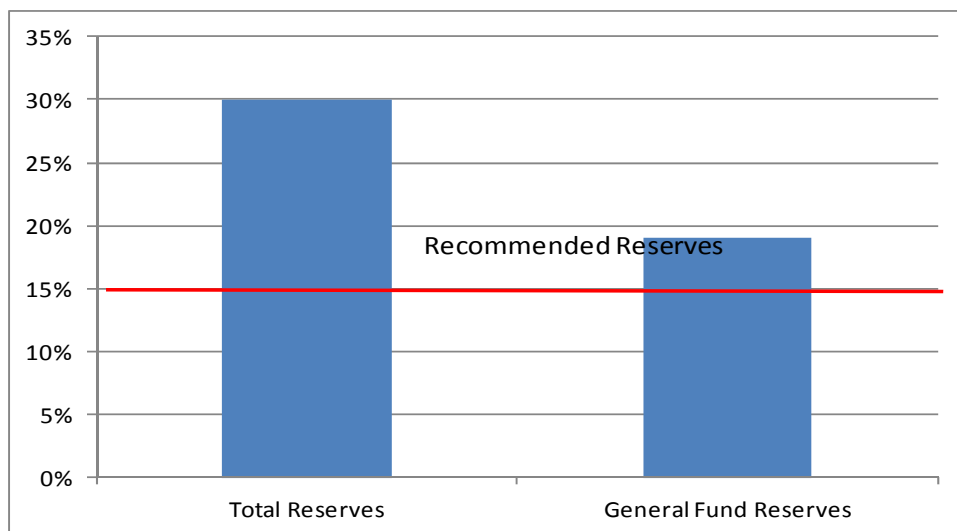
The economy has started a rebound and small revenue growth is now being experienced by the City of Monroe.

RESERVES AND MAJOR FUND BALANCES

In recent years, the City of Monroe has been able to maintain its reserve levels while seeing reductions in both of its primary funding sources: property taxes and state revenue sharing.

General Fund Reserves. It is considered good practice to keep 15% of annual operating expenditures in unrestricted fund balance to cover cash flow shortfalls due to delayed funding and to cover unexpected and unforeseen expenses or unanticipated drops in revenue. This is equivalent to the General Fund's savings account. The General Fund had \$3.79 million in total reserves as of June 30, 2014 with an additional \$2.0 million set aside in the City's Budget Stabilization Fund. The General Fund reserves include \$394,866 in non-liquid assets primarily related to real estate that is held for sale. When that amount is deducted from the reserves, the City still maintains reserves at approximately 30% of annual expenditures. If only General Fund reserves are considered, the City maintains approximately 19% of annual expenditures in reserve.

City of Monroe Reserve Levels, FY2014



DEBT LEVELS

Governments do not always have the cash on hand to pay for large projects like new buildings or major infrastructure improvements. Like households, governments borrow to pay for larger expenditures. Governments can also borrow money to meet short-term cash flow needs.

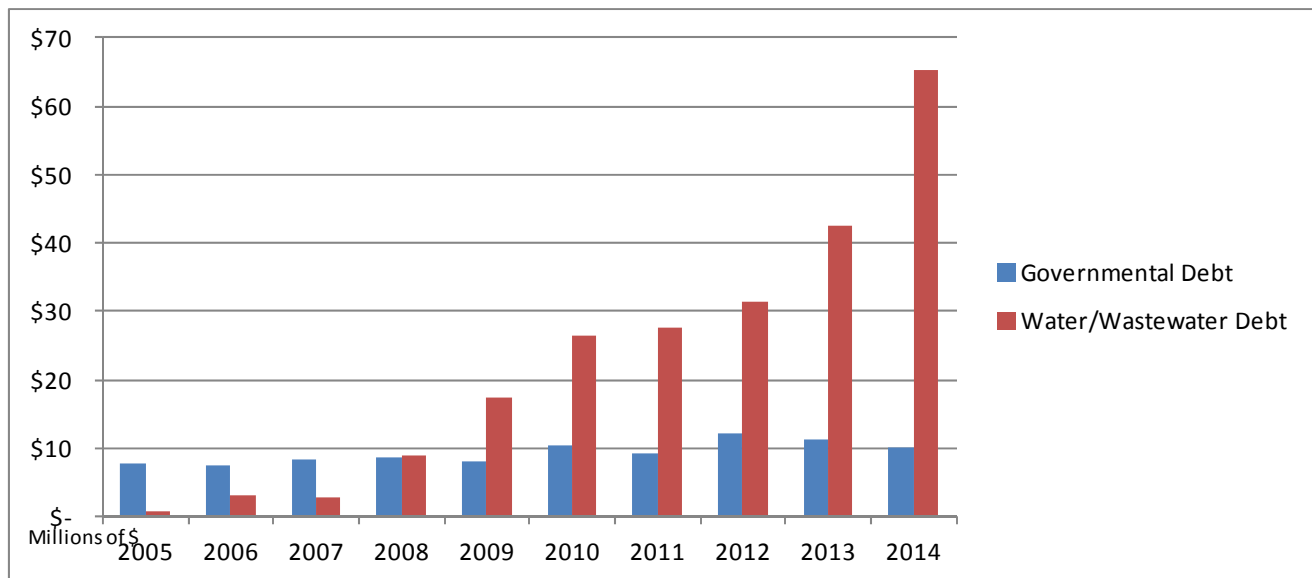
At the end of fiscal year 2014, the City of Monroe did not have any short-term debt and has never had the need to borrow on a short-term basis. The City of Monroe has borrowed money for larger equipment purchases where the benefits of the equipment will be seen for more than five years. The City has also borrowed money for larger building improvement and renovation projects and for infrastructure projects related to the Water and Wastewater systems and City bridge repairs. The Water and Wastewater infrastructure projects included the replacement of aging systems and improvements required to meet state and federal government mandates. Debt related to the Water and Wastewater systems totaled \$65.3 million. \$19.6 million of that amount related to the Water system and \$45.7 million of that amount was borrowed for the Wastewater system. These debt amounts will be funded by the system's respective customers, which also include users in townships and villages outside of the City of Monroe.

The non-Water and Wastewater borrowings of the City at June 30, 2014 totaled \$10.07 million. That \$10.07 million can be broken down as follows:

BORROWING PURPOSE	PRINCIPAL DUE
Mason Run Brownfield Activities	\$ 618,294
National Battlefield Brownfield	-
Multi-Sports Complex Construction	3,870,000
Bridge Rehabilitation	3,490,000
Parking Lot Improvements	1,855,000
City Hall Maintenance and Improvements	165,253
Log Loader Truck	72,890
Total	\$ 10,071,437

Cities in Michigan are limited in their ability to borrow money. The borrowing must comply with any municipal finance statutes adopted by the State of Michigan. One of those statutes limits the amount that cities can legally borrow to 10% of its state equalized value. As of June 30, 2014, the City of Monroe still had the capacity to borrow an additional \$59 million.

Debt related to Water and Wastewater activities has increased in recent years due to borrowing for large infrastructure projects. Other debt has increased slightly due to borrowing for bridge repair and renovation and city hall maintenance and improvements.



PENSION AND OTHER RETIREE BENEFITS

The City of Monroe provides benefits to its employees in retirement. These benefits consist of pension benefits and healthcare in retirement. Employees that meet certain age and years of service requirements are eligible to receive benefits under both programs. While the pension system has been very well funded over the years, the City has not adequately funded the retiree healthcare program for City employees and a substantial unfunded liability exists.

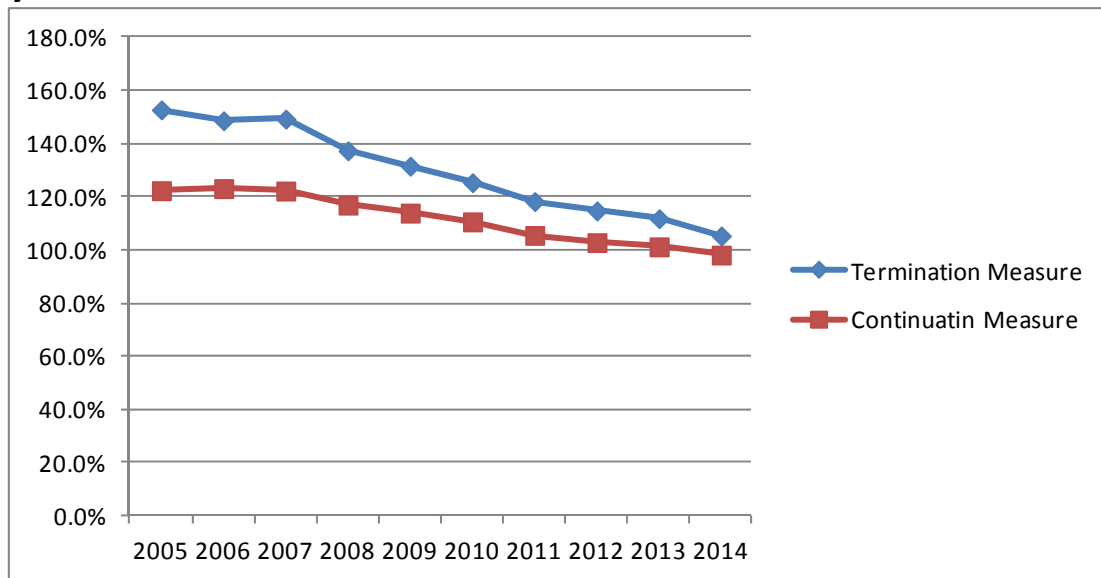
City Pension Benefits

Pension benefits are required to be pre-funded by contributions from the City and employees. Employees currently contribute anywhere from 2% to 5.5% of wages to their pensions. The City currently administers its own pension system through the appointment of a Pension Board of Trustees. The Pension Board of Trustees is primarily responsible for the management and growth of the pension systems assets. It conducts an annual actuarial valuation to determine the funded status of the system and to determine the amount that the City will need to contribute in the upcoming year.

Investment returns for the pension system were very poor in 2008 due to the downturn in financial markets late in that year. Even with that poor year of performance, the pension system has averaged greater than a 10% return on the assets it holds over the last thirty (30) years.

As of December 31, 2014, the pension system was 95.5% funded with valuation assets of \$130.1 million and liabilities of \$136.2 million. When the market value of assets is used, the pension system is 99.7% funded as of the same date. The following chart shows the funded status of the pension system over the last 10 years on two different measures used by the system's actuary.

Pension System Funded Status, FY2014



Retiree Health Care Benefits

The City also funds a retiree health care program for its employees. Employees hired prior to July 1, 2008 participate in a “defined benefit” type system where the benefit is equivalent to health coverage in retirement depending on attainment of normal retirement age under the pension systems eligibility rules. The benefit is either fully or partially funded by the City depending on the date of hire of the employee and the employee’s years of service at retirement. A retiree health insurance system is classified as “defined benefit” when the City is obligated to provide and pay for the benefit during the retiree’s and/or their dependent’s lifetime, regardless of whether enough funding was set-aside during the retiree’s active employment by the City.

There is no legal requirement that the City prefund the “defined benefit” type retiree healthcare program. The benefit has existed since the 1970’s, but the City did not begin prefunding the program until late in the 1990’s. As a result, the total present value of the liability incurred through December 31, 2014 has grown to approximately \$57.7 million as of December 31, 2014. At that point, the City had only set aside \$18.8 million towards the liability resulting in a funded status of only 32.5% of what it should be.

The actuary for the retiree healthcare system recommended that the City contribute \$3.691 million to the retiree healthcare system for fiscal year 2014 to cover the \$3.293 million cost of benefits coming due for that year and to provide for a \$398,000 contribution toward prefunding future benefits. Due to the dedication of additional City operating millage to funding retiree healthcare benefits, the City was able to contribute a total of \$4.086 million with \$1.036 million of that amount going toward prefunding future benefits. The annual required contribution to the system was increased to \$3.708 million for the 2015 fiscal year and the City made contributions in excess of that amount for that fiscal year.

Employees hired after June 30, 2008 are provided a “defined contribution” type retirement healthcare program. In this type of program, both the City and the employee contribute a fixed amount into an investment account for the employee, during their period of employment. Assuming positive investment returns, the funds grow until the employee terminates employment or retires and the funds in the account at retirement are available to cover the retired employee’s health care costs. The contribution rate for both the

City and the employee is currently set at 3% of the average base wage for all full-time employees. A retiree health insurance system is classified as “defined contribution” when the City is obligated to contribute funds into an employee’s retirement healthcare savings account only during the time that the employee is actively employed by the City. Because the City does not incur costs or provide a benefit after an employee retires, this type of system does not expose the City to incurring future unfunded liabilities for these employees.

PUBLIC BUDGET GAP

A *structural deficit* is the extent to which expenses exceed revenue in a given year. A *fund deficit* exists when the structural deficit is large enough to use more than the existing reserves available. However, the City of Monroe has unfunded obligations that are not recognized in its financial statements. Unfunded pensions and retirement health benefits and unfunded infrastructure repairs and improvements are not recognized as liabilities and therefore not included in the budget surplus or deficit figure. An alternative measure to the budget surplus or deficit called the *public budget gap* is presented here.

To measure the public budget gap in any given year, one adds any new unfunded obligations accrued during the year to current expenses. This gives the total amount needed to fully fund City obligations for the fiscal year. Subtracting these new “expenses” from revenues gives the public budget gap for that year. The following table shows that the City of Monroe had a \$484,480 public budget gap for its General Fund, primarily due to unfunded retiree healthcare liabilities and unfunded infrastructure repairs and improvements.

General Fund Public Budget Gap for FY2014	
Surplus/Deficit	\$ 249,487
New Unfunded Pension Obligations	\$ -
New Unfunded Health Care Obligations	\$ 266,033
New Unfunded Infrastructure Maintenance	\$ (1,000,000)
PUBLIC BUDGET GAP	\$ (484,480)

Cumulative Public Budget Gap

Public budget gaps are like deficits in that, over time, they accumulate. The entire public budget gap could be calculated by subtracting the unfunded liability for pension and/or retiree healthcare and unfunded infrastructure repairs and improvements from the reserves of the City of Monroe. If the total unfunded liability for retiree healthcare attributable to the General Fund is estimated to be approximately \$22.8 million, the public budget gap that has accumulated over time for the City of Monroe is displayed in the following table.

Cumulative General Fund Public Budget Gap for FY2014	
Surplus/Deficit	\$ 5,395,351
New Unfunded Pension Obligations	\$ -
New Unfunded Health Care Obligations	\$ (28,224,643)
CUMULATIVE PUBLIC BUDGET GAP	\$ (22,829,292)

Deferred maintenance on infrastructure has not been included in this calculation due to the subjectivity of its calculation. There are many infrastructure improvements the City of Monroe would make if it had funding available. As an example, many more streets would have been repaved and the central fire station would have been replaced by this time if funding were available. The unfunded liability related to this deferred maintenance is most likely in excess of \$15.0 million dollars and the reader could conservatively assume that the cumulative public budget gap should be increased by this amount.

How This Report Was Developed

The goal of this report was to provide the public with as much information as possible on the revenues, expenditures, and other financial activities of the City of Monroe in a simplified format. Annual financial statements are published by the City of Monroe and they are also available at <http://www.monroemi.gov> under the “Documents” link by going to “Department” and then selecting “Finance”.

DATA SOURCES AND NOTES

City of Monroe Comprehensive Annual Financial Reports from 2001 to 2014

City of Monroe Retiree Healthcare Plan Actuarial Valuation Report – December 31, 2012 and December 31, 2014

City of Monroe Employees Retirement System Seventieth Annual Actuarial Valuation – December 31, 2014